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Experience in Milk Marketing Control in the Greater Boston Market

Talk given by Samuel W. Tator, Administrator, Boston Milk License
at Northeastern Dairy Conference meeting, Boston, June 25, 1935. ★

I have interpreted the subject assigned to me, "Experience in Milk Marketing Control in the Greater Boston Market", to refer primarily to control in which either Federal or State authorities have participated. This interpretation narrows the scope of my subject materially because, if we leave out the period of 1918-19 when there existed for approximately a year and a half under the auspices of the United States Food Administration a program designed to meet the emergencies of the war, we find that until 1932 there was no definite control program in which either the State or the Federal Government took any direct responsibility.

Historical Background

It must not be thought, however, that the industry remained static between the time the Food Administration control was in effect and 1932. As a matter of fact, during that period of approximately thirteen years several efforts were made by the industry itself to devise one plan or another through which better control of the marketing of milk by producers could be brought about. The plans went so far as to consider producer-ownership of all country plants and the sale of all milk through one general sales agency. At various times during this period the Commissioners of Agriculture of the several New England states repeatedly sat in conference with leaders of the producers and distributors to help iron out problems as they arose. It may be said also that during this time the development of farmers' organizations was going on very rapidly, and gradually producers supplying the Boston market became affiliated with some form of cooperative organization until the very large majority of all milk coming into the Boston market was in some way or another subject to organization control.

Recent History

The past three years have witnessed several attempts to perfect a sound milk marketing program and to set up controls which would assist such a program. Under the auspices of the New England Governors' Advisory Council, a special Board called "The New England Governors' Dairy Advisory Board" was created early in 1932. By a series of contracts called "tri-party contracts", which were initiated and developed by this Board and executed by organizations representing producers, milk distributors, and the Board itself, a program was launched early in 1932 whereby distributors agreed to pay an established producer price on the basis of class usage of milk. This program also provided for a periodic audit of the records of all of the distributors participating. At this point it should be noted that not all of the milk marketed in Boston was subject to the jurisdiction of the Administrator appointed by this Board. It did, however, include a very large percentage of all milk and the program did represent, for the first time, an organized attempt, backed and supported by the prestige of the Governors' Board, to insure some measure of stability in the producer price and an accounting for the sales of the product.

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In the opinion of those who played a part during 1932 and who have since that date continued their relationship with other programs, it is agreed that this program of tri-party contracts was important mainly in that it served to concentrate attention on the basic problems affecting the marketing of milk in this area. The plan was very weak since it was not designed to meet the fundamental problems that necessarily must be faced in establishing and maintaining a stabilized marketing program for such an area as the Greater Boston market. These fundamentals, it is now generally recognized by most of those who have studied the problem closely and who have no personal interests to promote or conserve, call for the establishment of a uniform cost of product to all distributors on a use basis and the distribution of the proceeds so derived among all producers on an equitable basis. Stating the same thought in another way, we might say that each producer must be assigned an equitable share of the fluid milk sales in the market and the burden of carrying surplus milk not in demand for direct consumption must be equalized among all producers supplying the market.

The parties to this original pact initiated by the New England Governors' Advisory Board refused to renew their contracts when they expired on December 31, 1932, and again the market was faced with the necessity of falling back upon its own efforts to bring about and continue some measure of stability. All through 1933 various attempts were made to complete some form of organization from the producer end. It was during this time that Consolidated Dairies, now known as New England Dairies, came definitely into existence as the marketing agency for several cooperative organizations and the New England Milk Producers' Association. This organization is the largest producer organization in the market representing as it does more than 70% of the milk sold. The organization set up a program for pooling its sales of milk and for sharing the proceeds among producer-members on a base rating plan.

The First Federal License

In May, 1933, with the passage of the Agricultural Adjustment Act there was provided an opportunity for the issuance of Licenses and Marketing Agreements by the Secretary of Agriculture. Leaders of the milk industry in New England began to center their attention upon securing a Federal Agreement and License for Boston.

The first Federal License was issued and became effective on November 3, 1933. The marketing agreement was signed by fifty-two distributors in the market and was backed up by the Federal license issued by the Agricultural Adjustment Administration. This License and Marketing Agreement was a very definite forward step for the market as a whole, devised to meet the problems of stabilization and sound marketing. In brief, this program provided for pooling all sales of fluid milk in the Greater Boston market and the division of the proceeds among cooperative producer organizations on the basis of a base rating program. This program also provided for auditing distributors' records as to purchases and sales and, in addition, under the marketing agreement, resale prices were established. Under the terms of the Agreement, assessments were levied on the sales of contracting parties to cover the cost of administering the plan. In addition, assessments were levied on producers who were not members of cooperative organizations and the Administrator was charged with the responsibility of furnishing services to such non-members equal to the services rendered

by cooperative organizations. This feature, no doubt, was inserted in order to insure that membership in cooperative organizations did not suffer because of the necessity of collecting membership dues from producers which would make it attractive on the part of members of such organizations to become non-members unless a similar levy was made against all producers.

This program was in actual operation less than three months. The Marketing Agreement was cancelled as of February 1, 1934, by the Agricultural Adjustment Administration primarily because of a decision that the Government felt it undesirable to set resale prices. The License itself was continued in effect until March 15, 1934. Under the terms of this first License and Marketing Agreement an equalization pool was established and all distributors in the market were required to report their purchases and sales of milk. The Administrator announced a uniform price each period and payments to producers were made on this basis. The pool operated only until January 15, 1934. After that time and while the License remained in effect, the producer price contained in the License was held effective and all distributors were presumed to pay this price on the basis of their actual sales of fluid milk.

The Present Federal License

On March 16, 1934, a new License was drawn and put into effect for the Boston Market. This License with many subsequent amendments is still in effect. The new License contains all the important features of the first License except the provisions for signature to an agreement and resale prices. Under this new License sales of all dealers are pooled, base ratings established for all producers on a uniform basis, and associations are permitted to pay their members on a plan of their own. In other words, a compulsory uniform producer pay plan was not made a part of the License and each producer organization distributes its allotted share of the fluid sales in the market on a plan selected by itself. Each association is allotted its share of the proceeds of all sales according to the base ratings established for its individual members. As previously indicated this License has been amended on several occasions and is today a very different document in many respects than when it was first issued on March 16, 1934.

When the License was issued it was presumed that the Federal Government could control all milk used to supply the market regardless of whether it was of intrastate or interstate origin. Furthermore, it was presumed that all distributors of milk would be subject to the provisions of the License. Almost immediately after the License was put into effect it was attacked in the Courts by handlers of intrastate milk and the first decision rendered by the Courts declared that intra-state milk could not be controlled by the Federal Government. Action was also brought against certain handlers of interstate milk who refused to comply with certain provisions of the License, namely, with respect to paying into the equalization pool and paying to the Administrator deductions for administration and marketing service.

On May 17, Judge Brewster of the United District Court handed down an opinion that the License is void and unenforceable and those distributors who had refused to pay equalization, administration assessments, and marketing service charges to the Administrator, under this decision, were relieved of the necessity of so doing. In spite of this decision, representatives of producers determined to support the Federal License until such time as the case could be

decided by the Supreme Court and so the License has continued to function and is effective with respect to more than 90% of the milk sold in this market.

State Control

Since the Spring of 1933 the six New England legislatures have enacted State Control programs. It is not my purpose to discuss in detail the features of any of these State programs because there is considerable variation in their objectives.

The Massachusetts Milk Control Board, established in July 1934, considered that its first efforts should be directed toward a stabilization program for all of the State except the Boston market and not until February of this year did the State Board undertake an active participation in the efforts to stabilize the Boston market. The first effort made by the Milk Control Board in this market came through its attempt to effect stabilization in resale prices. Under its program the Board receives prices recommended by the Distributors and recognizes such prices to be the prevailing ones for the trade. The Board attempts to see that these prices are observed and there is little doubt but what the efforts of the Milk Control Board to stabilize resale prices have been of material help to the distributors and has made it possible for them to pay the producer prices established by the Federal License. It appears to be true that since the operation of the Federal License in Boston the distributors' spread has been materially lower than in most of the important markets of the country. Recently the Milk Board has been directing its attention toward establishing prices which must be paid by distributors to Massachusetts producers. It is frankly recognized that those distributors handling only intrastate milk have generally ignored the operation of the Federal License. Until the State Board took some action with respect to the prices paid for milk by these distributors Massachusetts producers in many cases were not receiving as much for their milk as were producers who came under the protection of the Federal License.

Although the Control Board's efforts have been most helpful, there is still much to be done to work out a plan of cooperation between the Federal and State Governments whereby each may function properly within its legitimate field of operation and at the same time provide that producers, whether of intrastate or interstate milk, be equitably treated.

The State Boards of all the New England States are very desirous of cooperation with the Federal Government and they all recognize that without a Federal License they themselves are powerless to control the interstate shipments of milk. The Massachusetts Milk Board fully realizes that its own program with respect to secondary markets within the State cannot be successfully carried out in several instances unless supplemented by a Federal License to control the interstate shipments of milk into these markets. This is the situation at the present time.

Under the Agricultural Adjustment Act and the Licenses as issued, no definite provision was made for cooperation with State agencies and anything that has been done up to now has been accomplished through mutual cooperation. The new amendments to the Agricultural Adjustment Act will apparently meet this situation and make it possible for State Boards to share with the Federal Administrators the problems of joint control.

It is quite obvious that from the producers' point of view the Federal License has served a very important function in the Boston market during the past year and a half. During that time producers have received a higher price for their milk than in any other section of the country. Producers recognize this and, because of this recognition, producers' associations were determined to support the License even in the face of an adverse Court decision as to its constitutionality. I believe that the primary reason why this support has been forthcoming with such complete unanimity on the part of producer organizations is due to the fact that the great majority of producers recognize that, in such a market as Boston, no program can be successful which does not provide for the pooling of all sales of fluid milk and the distribution of the proceeds back to producers on a base rating plan. When properly understood it is recognized that only through such a method can the goal of market stability really be attained for the producer. I am confident that no other plan thus far advanced can maintain itself in the Boston market unless it contains this important feature. It is true that minorities will continue to fight any program that contains these features and therefore it becomes necessary to control such minorities. It should also be stated that no plan can be devised and expected to succeed unless it has the general approval of the majority element among the distributors. In other words, what I am attempting to say is that you cannot regulate the milk industry by Government edict alone. The program must have the support of the vast majority and there must also be provisions for controlling the minority.

Summary of Accomplishments

It is important to summarize at this point the actual accomplishments during the past few years in milk market control for Boston. I have already pointed out that the first program initiated by the New England Governors' Advisory Council merely contained provisions for the payment of a producer price based on a class usage by individual dealers backed up by an audit of their books and records. This plan, while representing a decided improvement over what had been in effect previously, failed in its efforts to secure stability in the market. The present plan embodied in the License not only provides for a uniform cost of the product to distributors but it also provides for pooling the proceeds of each distributor's fluid sales of milk and a distribution of these proceeds among producers on an equitable basis. It provides for an audit of distributors' records and thus reasonably insures that producers shall receive the full value of their milk. The License sets up rules and regulations which tend to meet the many problems which arise in practical milk marketing.

From an accounting point of view it is interesting to note that, since the first audit program was instituted, there has been very substantial progress made in the milk industry. The first attempts at auditing were not very successful. Distributors' records in many cases were practically non-existent. Today almost every distributor has given a good deal of time and thought to the improvement of his own accounting system. This has been important not only to make possible compliance with the License but also has helped develop more efficient operation in the case of the individual distributor.

Under the terms of the License, organizations representing producers have been forced to give close attention to improvements in methods of handling their members' milk. The reduction in station charges provided for in the Federal License and limiting allowance for transportation to car-load shipments have forced a reconsideration on the part of producers of their country operations

and thus have increased the farmers' income by reducing deductions which might be made from their milk checks. The most recent amendment to the License limits deductions by associations from their patrons' pay checks for all other purposes to ten cents per hundredweight in any one pay period. It will thus be seen that the farmers' pay checks under the present License are hedged around and protected as much as possible from unnecessary deductions and from inefficient operation.

Because of a provision of the Federal License requiring the Administrator to publish each period the prices which organizations must pay, farmers know today what they should receive for their milk. This in itself is an important development and one which will tend to be of increasing educational value from the point of view of producers. There are many who strongly advocate that a uniform payment plan be adopted by all producer organizations.

Without doubt the farmers of New England are much nearer to a solution of their milk marketing problems than they have been at any other time in the past. Close observers of developments during the past several years believe that the day is not far distant when practically all of the milk produced for the Boston market will be handled through a few powerful efficient producers' organizations. From the standpoint of the dairy industry as a whole the concentration of producer control of production is an important development which should be sponsored and encouraged regardless of whether State or Federal help is to be continued. It should be frankly recognized that all the State and Federal legislation now in effect is based upon emergency conditions. Whether or not such legislation will be continued depends upon conditions in the future but in any event many of the problems of marketing milk will still be with us.

For almost a year and a half under the Federal Licenses the producer of milk for the Boston market has enjoyed a greater degree of stability of income than in almost any similar period of the past and has also, during this same period, received a greater percentage of the consumer's milk dollar.

The present base rating plan has been in operation since May 1, 1934. During the year ended April 30, 1935 our records show that the distributors reporting to the Federal Administrator handled 573,206,835 pounds of base milk and 315,473,693 pounds of excess milk, a total of 888,680,528 pounds. Of this total 506,054,260 pounds were sold as Class I and 382,626,268 pounds as Class II milk. The total value accounted to the equalization pool for all of both classes of milk was \$21,327,745.87. After deductions covering allowances for freight, station charges and other minor adjustments, the net amount distributed to the producers supplying the Boston market was \$18,388,914.65. This milk was produced by approximately 16,000 producers whose farms are located in the states of Vermont, New Hampshire, Maine, New York and Massachusetts and consumed by approximately 2,000,000 consumers residing in this sales area.

The Class I price for milk f.o.b. Boston was \$2.95 per hundredweight on May 1, 1934. Since that time producer prices have been increased on two occasions. On October 1, 1934 the price was advanced to \$3.26 per hundredweight and on February 24, 1935 to \$3.49 per hundredweight and that is the price at the present time. It will be noted that there has been a net increase of 54 cents per hundredweight in producer prices for Class I milk during the past year. It is estimated that for the year ended April 30, 1935 producers received \$3,447,900

more for their milk delivered to distributors in the Boston market than they received for the same quantity during the previous year. This does not fully represent all of their gains because, as previously stated, the License provisions have forced all agencies handling milk to consider ways and means of developing more efficient methods and reduced handling costs.

Perhaps the greatest gain of all has come about through a fuller realization that individual groups of producers cannot permanently enjoy a favorable position in the market at the expense of other producer groups. In other words, unless all producers share on an equitable basis the financial returns from the sale of all milk in the market there can be no stability and therefore individual groups must suffer with all other groups the resulting evils that inevitably flow from unstable market conditions.

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